fairpay magazine
2•2005

THEME

European payment procedure soon in place

PROFILE

Growth in Southern Europe

PAYMENT PSYCHOLOGY

Motivating debtors with poetry

Europe's politicians:

Weighing jobs against debt

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Can a poem convince people to pay their debt? The answer is yes. In, Finland, consumer psychology has been used to get delinquent debtors to pay. An important factor is to vary your message. For some groups, emotional arguments weigh heavily. On pages 12–13 we discuss modern collection methods tailored to the debtor's personal situation, capacity and willingness to pay. It's a question of being able to explain, motivate and sell the idea of a life without heavy debt.

Right now there are probably plenty of Europeans who are thinking about their financial situation. Most people agree that indebtedness is high. But there is a lack of consensus whether it is too high and whether it's something they should be worried about.

In this issue, we have tried to dust off our crystal ball and peer into the future with the help of a select group of European decision-makers.

We have also read reports from various government authorities and ministries, all of which state that the growing indebtedness is cause for concern.

In a Swedish survey presented in April, 758 respondents expressed little concern about possible increases in interest rates or a decline in real estate prices. At least not for their own sake. Six of ten believe, however, that their neighbors could run into problems because they have borrowed so much. Swedes are taking this uncertainty in stride, as indicated by the fact that only one in three people in the survey has calculated how an interest-rate hike would affect their household economy, and just as few say they follow interest rates closely.

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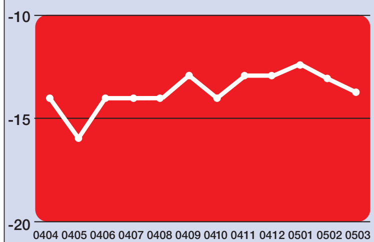
fair pay magazine no. 2, June **Publisher** Intrum Justitia AB, ISSN 1652-5620 **Editor-in-chief** Anders Antonsson **Assistant editors** Leif Hallberg och Marina Lahti **Production** RHR Corporate Communication **Printer** Printing Malmö AB **Subscriptions** info@intrum.com **Change of address** Intrum Justitia shareholders should advise their account-operating institutes. Others should contact the editorial desk. **Editorial desk** Fair Pay Magazine, SE-105 24 Stockholm, Sweden, info@intrum.com **Phone** +46 8 546 10 200 **Fax** +46 8 546 10 211 **Cover** EU finance ministers gather at an informal meeting in Scheveningen. © Pressens Bild. Final editing of this issue: May 17, 2005. The next issue of Fair Pay Magazine will be published in October 2005. Fair Pay Magazine existe également en version française. Fair Pay Magazineist auch auf Deutsch erhältlich. Fair Pay Magazine finns även på svenska.

IN BRIEF

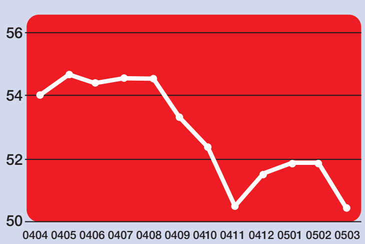
Results of ECB Conference on E-Payments

In November 2004 the European Central Bank held a conference on "E-payments without frontiers." The goal was to provide an overview of the latest developments in e-payments, with a focus on e-commerce to consumers (B2C) and electronic payments between consumers, person-to-person (P2P). The result is new concepts that go beyond traditional payment instruments currently offered by banks.



Consumers Remain Slightly Optimistic

The euro zone's Consumer Confidence Index remained fairly steady at about –13 from November to December 2004. In January there was a slight gain to –12.5, but the index was back at –13 in February before dipping to –13.8 in March. Not much of a major fluctuation, and experts expect the trend toward higher consumer spending in the fourth quarter of 2004 to continue during the first half of 2005.



PMI Fell in March

After nineteen consecutive months at above 50.0, which represents stagnation, and rising to over 54 in the summer of 2004, the PMI, the euro zone's Purchasing Managers' Index, fell to 50.4 in March from 51.9 in January and February.

A figure of over 50 indicates expansion, while below 50 indicates contraction.

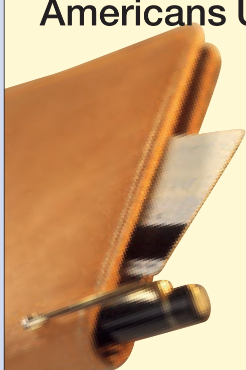
Sources: Financial Times, Collection Industry.com, Boston Herald, ECB, AFP, Finfacts.com, EU Commission.

EU Commission Forecasts Higher Demand and Investments 2005–2006

EU In its spring estimates, the EU Commission is forecasting annual growth of 1.6% in the euro zone and 2.0% in the EU in 2005. This marks a slowdown compared with figures of 2% and 2.3%, respectively, in 2004. The economy is expected to stabilize in 2006, with average growth of 2.1% in the euro zone and 2.3% in the EU. The forecast assumes higher domestic demand and sustained investments. Consumer spending is expected to gradually recover during the period. Important factors include moderate wage growth, low inflation, rising profit margins and structural reforms that restore confidence among consumers and business leaders.

The Commission sees a number of risks to its forecast, including further hikes in oil prices, disorderly exchange-rate adjustments and declining consumer confidence, which could hold back private consumption and investment plans.

Americans Using Tax Refunds to Pay Down Debts



When asked how they intend to use their tax refunds, 41 percent of American consumers say they plan to pay down credit cards and other debt. Only nine percent plan to spend it shopping, according to a survey by TrueCredit.com.

"With interest rates rising, consumers are paying more attention to their financial situation," said John Danaher, president of TrueCredit.com. "The average consumer owes $8,400 in credit card debt these days, so it makes sense to use a tax refund to reduce their debt burden."

TrueCredit is an Internet-based company whose newsletters and training material are designed to help consumers manage their debts.

Credit Card Debt Increasing Among US Seniors

USA Seniors in the US are struggling with growing credit card debt. Experts expect the numbers to rise as retirement accounts fall short and the cost of living continues upward.

While the 17–34 age groups continue to pile on heavy debt, older consumers are now catching up. The average debt of Americans 65 and older has increased 89 percent in the past decade to more than $4,000. The main reason for their credit problems isn't frivolous spending but rather a worsening job market that has forced many people into retirement and poorer-than-expected health care coverage.

"We see a lot of older folks on fixed incomes who are finding retirement funds are not sufficient to keep up with everyday living," said Andy Liles of American Credit Counseling Service Inc. "This is a shift from the demographics of previous years, where teenagers charged hamburgers and beer to their credit cards without any real plan how to pay off the balance."


European Over

Indebtedness in Europe continues to rise as consumers and businesses borrow to an extent never seen before. This is partly the result of historically low interest rates. Financial authorities in several EU countries caution that this potentially bothersome situation for debtors warrants close monitoring.

Indebtedness

– Imminent Threat or Long-Term Opportunity?

Low interest rates in Europe, coupled with rising housing prices, are a ticking time bomb that experts believe is leading to over-indebtedness in many European countries. However, there are many different points of view when it comes to the risks involved. Governments, politicians and central banks in various countries, along with the EU, are closely monitoring what might happen the day interest rates rise, but no one knows for sure what the real effects will be. In this article, Fair Pay Magazine provides an overview of the current situation in Europe, and in future issues will take a closer look at the problem.

Being in debt is nothing unusual for most consumers. On the contrary, loans are an integral part of our daily lives and play a vital role in the economy. Economic stability generates prosperity, a fluid job market and low interest rates, but also means higher demand for credit.

For some households, debt can become so high that they risk default. In other words, they are over-indebted. The costs of over-indebtedness do not fall on individual borrowers alone. They also affect financial institutions, other creditors, governments and society as a whole.

In the last quarter of 2000 stock prices around the world began a long, steep decline. This was followed by a period of protracted uncertainty and a slowdown in economic activity. Interest rates were slashed to stimulate demand.

Statistics from Eurostat, the EU Commission's statistical office, show that the prevailing contraction in financial assets was followed by a generalized increase in consumer debt in the EU – from 61 percent of GDP in 2000 to 65 percent in 2002. The same applies to the euro zone, where the debt level climbed from 56 percent in 2000 to 58 percent in 2002.

Debt rose substantially in Denmark (from 109 percent of GDP in 2000 to 116 percent in 2002) and in the Netherlands (from 92 percent in 2000 to 102 percent in 2002). A significant increase also took place in the United Kingdom (76 percent in 2000, 85 percent in 2002). An upward trend was also seen in other member states, such as France (from 26 billion euro in 2000 to 36 billion euro in 2002, with an exceptionally high level of 81 billion euro in 2001).

In March the German government issued a report, *Armuts- und Reichtumsbericht* ("Poverty and Wealth"), on the growing problem of excessive consumer debt. Between 1999 and 2002 the number of indebted households in Germany rose from 2.77 million to 3.13 million euro. The main reasons

> “While paying late is not a criminal act, it should continue to be associated with penalties and added interest.”

Mats Odell, Economic Spokesman for Sweden’s Christian Democratic Party.

were unemployment, separations or divorce and permanently low income. Also, indebted consumers are generally low-educated with a poor understanding of financial matters.

At the March 2004 Financial Stability Forum (FSF) in Rome, members discussed the financial risks from increased household indebtedness and mortgage lending. As inflation has fallen, interest rates have kept pace and in turn allowed a greater number of households to borrow.

If inflation remains low, the real value of the debt will not erode as quickly as it has in the past, when inflation was high. As a result, households may be exposed to financial shocks for some time to come, according to FSF.

On the other hand, recent data in the European Commission’s spring economic forecast for 2005 confirm that companies have used the availability of cheap funding to restructure their balance sheets and reduce financing costs. As a result, the interest burden of bank loans has decreased from 145 billion euro in January 2003 to 131 billion euro in September 2004, according to European Central Bank estimates.

While some companies and households face difficulties, according to the EU Commission, it appears that indebtedness is not an EU-wide problem. Instead, the main challenge is how to launch investment and consumption again so that growth in Europe resumes a quicker pace, to absorb unemployment.

The UK Department of Trade and Industry (DTI) says that increasing debt is largely a rational response to a number of factors:

- A sophisticated and competitive credit market that offers a variety of products;
- Record-low employment and a strong economy;
- Low interest rates;
- Rapid rise in housing prices (which often means that wealth exceeds liabilities).

DTI states that 7 percent of households in the UK are over-indebted, 13 percent have debts related to consumer credits or bills, and around one in five say they face financial difficulties.

The Tory Party in the UK warns that consumer indebtedness represents a time bomb that threatens to explode. Banks are too generous in lending money to consumers who are already in debt, the Tories say in a financial report. According to the report, 15 million Britons are at risk if the economy should falter due to external factors such as higher oil prices or terror threats.

To address the situation, the UK government stressed the importance of responsible lending and borrowing in its Consumer Credit Bill, the biggest shake-up in the UK credit industry in 30 years.

The government has legislated to improve the transparency of information available to consumers:

- The Consumer Credit (Advertisements) Regulations 2004 tackle aggressive marketing practices by introducing a new approach to the advertising of consumer credit. The new rules prevent advertisers from promoting one aspect of a product while hiding others in the small print by requiring key information about credit costs to be displayed just as prominently.

Germany’s Federal Ministry for Consumer Protection, Food and Agriculture, BMVEL, has in recent years initiated and promoted several projects to improve the public’s financial understanding.

BMVEL is also working to significantly improve the qualifications and obligations of insurance and financial consultants. To become certified, they will be required to sign a professional responsibility insurance agreement. BMVEL also supports the principle of responsible lending, to encourage and enjoin lenders to provide extensive information. This includes information that helps consumers make informed decisions and understand the impact of a loan on their financial situation.

Swedes are borrowing like never before. According to statistics from the Swedish Bankers’ Association, the total liabilities of Swedish households rose by 15.5 million euro in 2004. At year-end their loans totaled 149 billion euro. This was the first time that households had a greater debt burden than companies in Sweden.

“It appears that overall indebtedness does not represent an EU-wide problem. The main challenge is how to launch investment and consumption again.”

Gregor Kreuzhuber, EU Commission Spokesman for Enterprise and Industry.

In a report issued in November 2004, Sweden's central bank, the Riksbank, warned about the high indebtedness of Swedish households and rising real estate prices. There are no signs that the stability of the payment system is threatened, however, or that price stability is in any way in danger.

While the Swedish government has so far not wished to give a statement to Fair Pay Magazine on the high level of household debt, several opposition spokesmen say that the government should closely monitor the situation.

“I think the situation has improved in most European economies in recent decades. We must keep in mind that in the past five years most Western countries have experienced the worst downturn in the financial markets since the 1930's, and still there is very little evidence of major disturbances to the basic stability of the markets,” said Mats Odell, economic policy spokesperson of the Christian Democratic Party. “Because credit losses at most financial institutions are at historical lows, the majority of them should be able to handle interest rate increases at this point.”

For most EU countries it is important that debtors in insolvency are helped in various ways. And it is equally important that creditors get paid.

In the UK, the Department for Constitutional Affairs published a debt statement in March 2005 that outlines a number of initiatives to help consumers with debt rehabilitation and proposes new measures to assist those with multiple debts.

The UK Consumer Credit Bill includes provisions on how over-indebted consumers can repay their debts at a rate they can handle. It also encourages parties to negotiate repayment schedules when a problem is in its early stages, not when it becomes serious.

The German government has introduced the option of personal bankruptcy. Under certain conditions, over-indebted consumers can be released from their debt after a six-year period of good behavior. In this way those with overwhelming debts have a chance at a debt-free life, while creditors can at least get partly paid for their receivables.

From the EU Commission's point of view, a policy on bankruptcy that favors businesses might protect them from pressure from creditors and reduce creditors' power. The Commission also notes, however, that a system that allows debts to be postponed, or not repaid at all, could make investors less willing to fund risky ventures.

Last year the EU Commission published a new agenda to boost entrepreneurship – *The Entrepreneurship Action Plan* – designed to spread understanding on business failures and, above all, prevent bankruptcies. It is hoped that this information, which will be used for promotional campaigns or educational purposes, will result in wider awareness of the risks and opportunities faced by entrepreneurs. Hopefully this will help to reduce suspicions against those that fail.

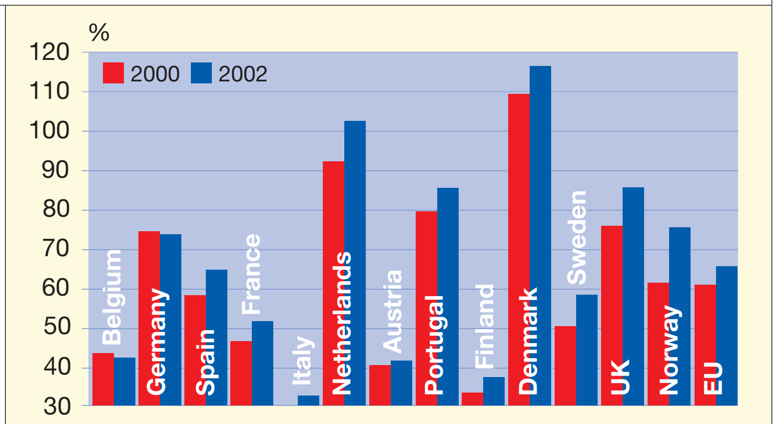
Another debt problem relates to late payments in the corporate sector, contributing to financial difficulties for many small and medium-sized companies.

In late March of this year, new laws to help businesses recover unpaid bills across borders were demanded by British members of the European Parliament. According to UK's Labour MEP Arlene McCarthy, red tape is hampering EU firms from chasing outstanding invoices in other member states.

“Nine thousand EU businesses have serious concerns about late payments. There are differences in legal regula-

Europe's politicians weigh jobs against debt.

“We want to bring in legislation that will make it easier for businesses to demand payments from customers in other countries.” Arlene McCarthy, UK Labour



Source: Eurostat: Statistics in focus, Theme 2 22/2004 – Household financial assets and liabilities in Europe.

Debt in relation to GDP. The latest statistics from Eurostat show that debt is rising in Europe as a whole as well as in nearly every European country. And there are no indications that this trend will be broken anytime soon.

tions in different countries and this problem has the most severe effects on small businesses that have a smaller cash reserve,” she said. “We want to bring in legislation that will make it easier for businesses to demand payments from customers in other countries.”

Gregor Kreuzhuber, EU Commission Spokesman for Enterprise and Industry, noted that the European directive on late payments that has been in force since 2002 was extended to ten new member states in 2004: “The basic purpose of the directive is to combat the fact that every year 450,000 jobs within the EU are lost due to late payments. In addition, 23.6 billion euro worth of receivables is lost through insolvency cases.”

The directive introduces a statutory right to interest, which should be sufficiently high to compensate creditors for losses incurred through late payments.

“While paying late is not a criminal act, it should continue to be associated with penalties and added interest. We would consider allowing companies to enforce higher penalties on parties that repeatedly miss payment deadlines if the trend continues,” said Mats Odell, economic policy spokesperson of the Swedish Christian Democratic Party.

Fair Pay has been in touch with governments, departments and central banks in the UK, Sweden, Germany and France, as well as several EU bodies. The magazine is still awaiting replies from a number of authorities and politicians, and in upcoming issues will follow up the discussion on European over-indebtedness.

Sources: UK Department of Trade and Industry, EU Commission Spokesman for Enterprise and Industry, German Federal Ministry for Consumer Protection, Food and Agriculture, Swedish Riksbank, European Central Bank, financial news media.

Rising concern about growing indebtedness

In its monthly bulletin in March of this year, the European Central Bank (ECB) said it is closely monitoring the risks associated with rising housing prices in the euro zone and high levels of household debt.

Increasing indebtedness in Europe is a rapidly growing problem creating concern among financial authorities, consumers and businesses, particularly small and medium-sized companies.

Future interest rate hikes may lead to major problems, and there is a risk that many debtors will find it difficult to pay their debts.

Pan-European business surveys show that business-to-business payments tend to be made later still. A majority of companies across Europe cite payment uncertainties as the biggest obstacle to cross-border trade.

Households have accumulated a lot of debt in recent years. Total household debt exceeded 55 percent of GDP in the fourth quarter of 2004, up 10 percentage points from early 1998.

High indebtedness is the result of a substantial rise in mortgage loans at a time of sharp increases in housing prices. This leaves households more vulnerable to interest rate hikes, the loss of income or a downturn in the housing market, the ECB said. It added that competition has prompted banks to relax credit standards for mortgage lending.

Source: AFX Europe

"The European Commission's proposal to create a European Order for Payment Procedure represents a significant step toward a common system of integrated payments in Europe," said Intrum Justitia's Public Affairs Director Leif Hallberg.

EU Closer to Adopting a Common Payment Procedure

Experience shows that debt collection works much better in countries with an efficient, user-friendly system for payment without complicated, time-consuming procedures.

The Regulation for European Payment Procedure is likely to impact overall payment habits, especially when debtors realize that the legal system will react faster and more effectively to creditors' claims.

Efficient payment systems are essential to a smooth-running economy. First, poor payment habits reduce capital productivity and investment as money is held up in bank accounts. Secondly, late payment, or no payment at all, also creates the risk of insolvencies, especially among small and medium-sized enterprises (SMEs). It is also seen as a major obstacle to cross-border trade, as indicated by Intrum Justitia's pan-European business survey in 2004.

The European Commission notes that between 50 and 80 percent of all debt cases dealt with by lower courts concern uncontested claims. This creates unnecessary delays and costs to reclaim debts that debtors are simply unwilling or unable to honor. The proposed payment procedure seeks to address this shortcoming by offering creditors the chance to enforce payment of claims through a harmonized procedure applicable across the EU.

As with the EU late payment directive in 2002, the motive is clear: swift recovery of outstanding debts is vital to the survival and development of companies in the EU, especially SMEs.

In the introduction to its proposal for a European payment procedure, the EU Commission mentions a 1994 study by Intrum Justitia that showed that late payment is often intentional and that the absence of laws providing creditors the opportunity to quickly settle uncontested claims gives de facto debtors a certain amount of impunity.

The scope of the payment procedure is likely to be the most debated aspect of the proposal, which is currently in the hands of the EU Parliament and Council of Ministers, according to the EU's co-decision procedure.

The Commission has proposed that the procedure apply to both cross-border claims and domestic cases, since the

latter can sometimes be of a cross-border nature (e.g., if one party moves to another member state). Moreover, different procedures across Europe distort the single market.

Although the payment procedure, as proposed, will be voluntary and national procedures could still be used by creditors, some opposition can be expected from economic interests and member states that would prefer the procedure to be reserved strictly for cross-border cases.

"Intrum Justitia welcomes this initiative by the European Commission," said Leif Hallberg, Group Director of Public Affairs. "But to ensure that the proposed payment procedure works effectively across the EU, it is vital that its application is not limited to cross-border cases."

The experience Intrum Justitia has gained from similar payment procedures on a national level would indicate that lenders will pursue debts in a more transparent way, safe in the knowledge that statutes of limitations will not threaten the eventual recovery of the debt.

He further notes that one of the main objectives of the payment procedure, as proposed by the Commission, is to provide creditors with a simple and cost-effective tool to recover debts.

"We at Intrum Justitia have always maintained that the use of a professional service to recover uncontested claims should be a voluntary decision by the creditor based on the provider's ability to effectively carry out the service while following established guidelines," said Leif Hallberg. "We therefore also welcome the Commission's proposal that no longer makes it necessary to hire legal representation and instead leaves it up to the creditor to decide."

He also sees room for improvement in the Commission's payment procedure proposal, however. In particular, it misses the opportunity to harmonize rules on responsibility for paying the costs of the procedure. In its position paper to the EU Commission and Parliament, Intrum Justitia Group points out that payment habits generally improve when debtors are required to pay all the costs associated with the procedure.

QUICK FACTS

Intrum Justitia is Europe's leading Credit Management Services (CMS) group. Its objective is to measurably improve clients' cash flows and long-term profitability by offering effective services and high quality in relation to both clients and debtors in each local market. Intrum Justitia's services cover the entire CMS chain, from credit information via invoicing and reminder management to debt surveillance and collection of written-off receivables. The Group has more than 90,000 clients, revenues of SEK 2.9 billion and around 2,900 employees in 21 European countries. The company was founded in 1923 in Sweden and has been listed on the O-list of Stockholmsbörsen, the Stockholm Exchange, since June 2002. The head office is located in Nacka, outside Stockholm, Sweden. President and CEO: Jan Roxendal. For more information on the Intrum Justitia Group, visit **www.intrum.com**

Intrum Justitia Group	**2004**
Revenues, SEK M	2,740
Operating profit (EBITA), SEK M	430.6
Cash flow from operating activities, SEK M	485.3
Collection cases in stock, million	11.6
Total collection value, SEK billion	79.4
Average number of employees	2,945

For definitions, see www.intrum.com

Analysts who cover Intrum Justitia

ABG Sundal Collier – Espen Bruu Syversen
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Morgan Stanley – C. Jimenez, L. Diana
Standard & Poor's – Stefan Andersson

Financial report dates 2005	
Extraordinary General Meeting	June 16
Interim report, January–June	August 17
Interim report, January–September	October 26

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World Payment Guide Helps British Export Industry

Intrum Justitia's *World Payment Guide* describes payment routines in 28 countries in Africa, North and South America, Asia, Australia, Eastern Europe and the Mediterranean. It was designed with British exporters in mind and covers important aspects of local credit management, including contract-based payment terms and legal principles.

"The *World Payment Guide* is designed to give British export industry a helping hand with credit management issues by providing it with practical macroeconomic information on countries in different geographic regions," explains Stefan Schär, project manager at Intrum Justitia.

The *World Payment Guide* is the latest addition to Intrum Justitia's practical tools for credit managers. Other examples are the *European Payment Guide*, *European Payment Dictionary* and *European Payment Index*. An electronic version of the *World Payment Guide* is available free of charge at www.europeanpayment.com

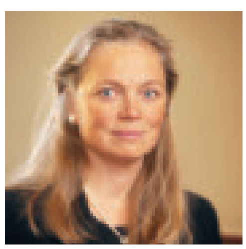
Intrum Justitia's Annual Report 2004

In his statement, President and CEO Jan Roxendal notes that: "The last year was distinguished primarily by consolidation, in order to make Intrum Justitia a better, stronger and more open company. We have strengthened many of the Group's key functions, while improving internal processes, further developing our range of services and enhancing client relations in several markets.

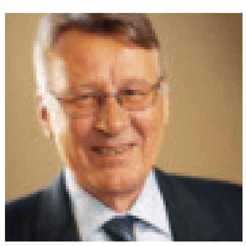
"Among the most important driving forces in Intrum Justitia's market, I would include the growing indebtedness of businesses and consumers and the trend among companies to reach out for professional help to manage their loans and receivables."

Two New Members Join Intrum Justitia AB's Board

SWEDEN Intrum Justitia AB's Annual General Meeting on April 27, 2005 elected Helen Fasth-Gillstedt and Leif Palmdahl to the Board of Directors. The following members were reelected: Bo Ingemarson (Chairman), Björn Fröling, Lars Förberg, Gerard De Geer, Jim Richards and Christian Salamon.



Helen Fasth-Gillstedt, age 43, Vice President Corporate Development and Advisor to the President of the SAS Group. She has worked in several positions within the Scandinavian airline and travel group since 1998 and has spent twelve years in general management positions at the Norwegian oil company Statoil. Mrs. Fasth-Gillstedt is a board member of Blue-1 Oy, Multicom Security AB and Precise Biometrics AB. She holds a M.Sc. from the Stockholm School of Economics.

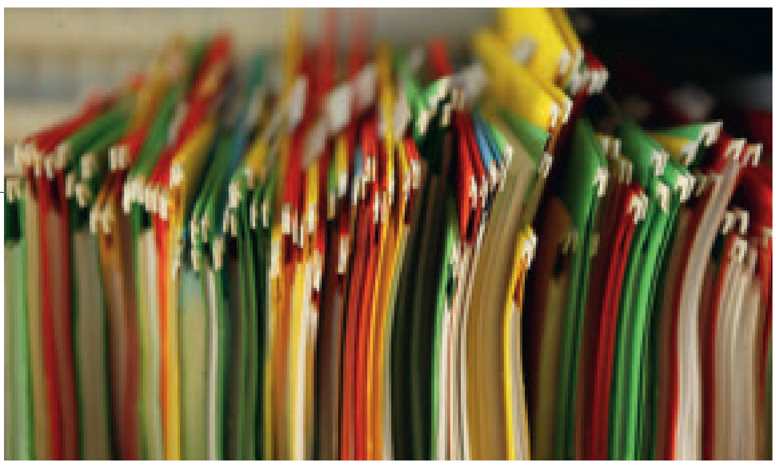


Leif Palmdahl, age 63, has extensive experience in the collection industry and is now managing a major agriculture concern. He held several senior positions within Intrum Justitia from the late 1970's until 1989. Between 1986 and 1989 he was the CEO of Intrum Justitia. Until mid-2004 Mr. Palmdahl was the chairman of the municipality of Gullspång, Sweden. He is a board member of Vänerhamn AB.

Debt Su

Consumer psychology, effective negotiation strategies and emotional intelligence are the secrets behind the success of Intrum Justitia's debt surveillance collection unit in Finland.

– Motivati



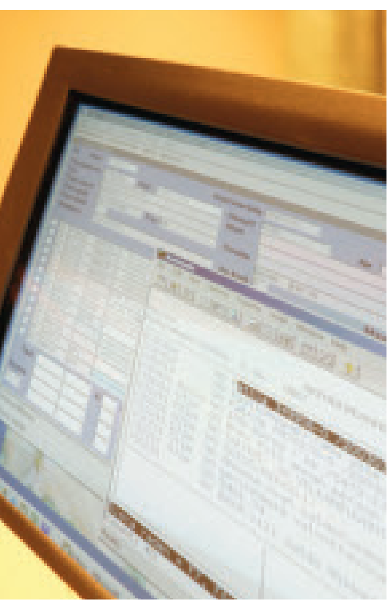
In many cases, consumers are in debt to more than one company or creditor. As a result, there can be more than one reason for their financial situation. Because of this and the generally higher level of indebtedness, customer-focused motivational strategies are proving a success in pursuing debts.

Modern debt collection techniques increasingly employ consumer psychology. Frequently used models include life-cycle psychology, emotional intelligence, motivational and transaction theory. The many channels available today for collections have led to a mix of new and traditional technologies.

Ari Kämäri, head of the debt surveillance department in Finland, believes that the key to Intrum Justitia's success in his country lies in an understanding of client behavior and constantly updated collection methods. This is achieved by supporting the employees with education.

The direct mail team works in the same way as a direct marketing group at any ambitious company, making use of psychological variables in its market segmentation.

"We differentiate our message for each segment accord-



By understanding client behavior, collection work has a better chance of success, according to Ari Kämäri, head of the debt surveillance department in Finland.

urveillance the Finnish Way tion Pays Off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ing to the debtor's payment profile, personal profile and lifecycle stage," explains Ari Kämäri. "Attitudes toward debt problems vary greatly by age group. Consumers in their early twenties, for example, don't fully realize the consequences of a spending spree, but as they move into their thirties they start to take more responsibility for their actions.

"Emotional arguments that target a person's feelings and trigger action are usually the best way to motivate unwilling debtors. For example, we ran a direct mail campaign in poetry form aimed at middle-aged women that produced good results."

The goal of the mailing was to motivate people with unpaid debts to contact the collection team. At that point, psychological models play an even greater role, as the company's employees try to read the consumer's verbal and non-verbal cues and use them to measure and analyze their ability and willingness to pay the debt.

"When a debtor calls after receiving a collection letter, he or she is usually still hesitant and upset," he continued. "The collection agent has to understand motivational theory to know how the debtor feels about the future and whether they are willing to solve their problems. Transaction theory helps the negotiator to understand the debtor's thoughts. And emotional intelligence helps us to adapt to the debtor's emotions and find the right words."

The agent never suggests a payment plan right away. Instead, he tries to encourage the consumer to suggest resolving the problem.

"The key to success in debt surveillance is to use the information at hand to understand the debtor's behavior, offer an attainable goal and motivate them to overcome payment obstacles. Ultimately, the objective is to sell the notion of being debt-free," Ari Kämäri concluded.

Consumer debt on the rise

- The Finnish market has seen a substantial increase in consumer debt in the past decade. Individuals are likely to have more debt and multiple debts spread across a larger number of products than ever before.
- Currently 1.6 million cases are under debt surveillance. They are divided among 300,000 households with claims totaling approximately 430 million euro. The average monthly payment is 50 euro and over 70 percent of debtors need more than 30 months to pay their debt.
- To combat the spending hangover, the Finnish government launched a debt management program in 2004.
- Intrum Justitia is working in cooperation with the Ministries of Justice and Finance, Finnish Guarantee Board, Finnish Bankers' Association and other debt collection companies to offer a debt relief program for people with severe debt problems that arose during the recession in the early 90's. This solution helps them to become debt-free within a reasonable time. Around 60,000 Finns have been granted debt adjustment.

Of all Intrum Justitia's seven regions, Southern Europe has the longest payment delays. Possibly this is because collection services haven't been used in the region for more than 20 years. By placing greater focus on efficient payment routines, interest in outsourcing professional collection firms will rise.

Great Potential for Outso

Long payment times in France, Italy, Portugal and Spain are mainly due to long payment terms. Italy admittedly has the longest payment times, averaging 90 days, although the normal payment term is 70. In Spain, on the other hand, the normal payment is very short at only 13 days, but the average payment is made after 81 days. Portugal is similar to Spain, with a large number of late payments, while France is the 'best in class' with payments made after an average of 50 days.

Pascal Labrue, Managing Director of Intrum Justitia France and regional managing director for France, Spain, Portugal and Italy. He was employed as MD in 2000 and became RMD in 2004.

Age: 37.

Family: Married with two children.

Hobbies: Skiing, football and wine.

Pascal Labrue, head of Intrum Justitia's operations in France, Spain, Portugal and Italy, explained that there are a number of reasons for the situation in the four countries: "There's no denying the cultural impact, and we're used to complaining about things. In this region, we almost always have to question and negotiate everything."

Large companies in France and Italy commonly force their suppliers to accept a 90-day payment term. In general, it is rare that creditors charge debtors with late payment interest.

"Credit management has only been around for about 20 years in Southern Europe," Labrue said. "Implementation of the EU directive on late payments has taken place quite recently in the four countries. Spain actually adopted the directive as recently as late last year."

Intrum Justitia is the leading collection management

FACTS ABOUT THE REGION

FRANCE Intrum Justitia was founded in 1982 and has held a market-leading position for two years after intense organic growth and local acquisitions.

ITALY Intrum Justitia was founded in Florence in 1986 and moved to Milan in 2002 after merging with D&B Italy.

PORTUGAL Intrum Justitia was founded in 1997 and is the market leader and founder of the local debt collection federation.

SPAIN Intrum Justitia was founded in 1984 and has seen strong growth in the last three years, making it the market leader.

MD Intrum Justitia France: Pascal Labrue
MD Intrum Justitia Italy: François Martines
MD Intrum Justitia Portugal Luis Salvaterra
MD Intrum Justitia Spain: Luis Salvaterra

	2004*
Revenues, SEK M	318
Operating profit (EBITA), SEK M	50.0
Operating margin, %	15.7
Employees	417

*figures excluding Italy

urcing in Southern Europe

company in France, Spain and Portugal. It is number five in Italy.

"Our core business in the region is debt collection in the business-to-consumer (B2C) segment," he added. "In France and Spain, we have large clients in B2C, mainly in telecom, bank and insurance. Portugal is more differentiated by local market conditions."

Street collection is very common in Italy, as it is in the UK, and Intrum Justitia has 85 field agents conducting collecting activities. According to Labrue, the company is about to launch its B2C offering in Italy, and one clear objective is to grow the business there.

In the business-to-business (B2B) segment, Intrum Justitia is also developing its offering for local conditions.

"We cover the range from small companies with five cases per month up to large B2B companies with large numbers of cases," Labrue said. "We've also implemented a new dedicated platform for the B2B market in France where we can manage the whole receivable management process for our clients. This helps them to focus on their own customers, while outsourcing the large volume of cases to us at an early stage."

Outsourcing of accounts receivable management is still rare in Southern Europe compared with the Nordic countries or Germany. But it is growing in France and Spain.

"I estimate that outsourcing represents less than ten percent of the total market in France, so there's a large growth potential for us there," Labrue pointed out.

In the last four years Intrum Justitia has made three acquisitions in France. After integrating D&B RMS in 2001, Cofreco and Jean Riou Contentieux were acquired from the Fininfo Group in January 2003. In Spain, Intrum Justitia has acquired two companies from D&B and Vía Ejecutiva.

"We've developed a successful integration model to address these acquisitions, and today we have the same sales force and support departments operating under the Intrum Justitia name. The acquired companies have further strengthened our position in the market," Labrue concludes.

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commentary

The Magical Cash Cycle

Commentary: Ron Wells
Profession: ChevronTexaco Credit Manager for Global Trading in London

Ron Wells is the author of *Global Credit Management – an Executive Summary*, published by John Wiley & Sons Limited.

In these times of sharply rising input costs, increasing export sales, and/or slowing payments from corporate buyers, it is useful to study how the magical cash flow cycle applies to your business.

The Cash Flow Cycle is described as magical because of the way it magically causes cash to disappear, as if it were the gravitational pull of a black hole in space. Left uncontrolled, it will suck in cash and lock it beyond the reach of your company, particularly in times of rising prices or increasing sales volumes.

The key to avoiding potential calamity is an analysis and understanding of the effect of the Cash Flow Cycle on your day-to-day business.

Many analysts seem to ignore the fact that bankruptcy is defined as the failure to pay a debt on time, which simply means having insufficient cash freely available to pay. Therefore they focus their concern on traditional financial ratios and all too often miss the opportunities or the danger signals.

Over the past three years, for example, the international metal company Corus Group has evidenced a cash flow cycle of between 64 and 66 days. Hence in 2004, as its sales grew by £1.38 billion, the extra cash that became locked up in its Cash Flow Cycle grew by £269 million. This represents some 20 percent of the sales growth, which is to say for every £5 of additional sales Corus locked away £1 in additional working capital.

Growth in sales is extremely cash hungry in respect of every business, unless the components of the Cash Flow Cycle are carefully controlled.

The Cash Flow Cycle is calculated by adding the Days Sales Outstanding to the Days Inventory (Stock) on hand and deducting the Days Trade Payables Outstanding.

It is clear that active management of this formula could result in "free" cash being made available to any business. Minimising the amount of trade credit given (reducing the Days Sales Outstanding) and minimising the time inventory is held, while obtaining as much "free" credit as possible from suppliers (maximising Days Trade Payables Outstanding) will magically unlock your cash reserves.

Analyse your business, try some alternative "what-if" projections, and see the magic come to life for you.